NCA
VOC FOR IOP/FN
BACKGROUNDER 1-0060 JANUARY 29, 1976
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CHINA AND THE OIL EQUATION

ANNCR:

THE WORLD PRESS IS GIVING CONSIDERABLE ATTENTION TO CHINA'S POTENTIAL AS AN OIL POWER. VOA'S JOSEPH KUN, IN THIS BACKGROUND REPORT, LOOKS AT THE RECORD AS WELL AS SOME OF THE PROBLEMS THAT LIE AHEAD IN PEKING'S EFFORTS TO REACH THIS GOAL.

VOICE:

AS RECENTLY AS TWENTY-FIVE YEARS AGO CHINA IMPORTED PRACTICALLY ALL THE PETROLEUM IT NEEDED FOR INDUSTRIAL AND TRANSPORTATION USE. TODAY, AFTER A QUARTER-CENTURY OF HEAVY INVESTMENT IN OIL EXPLORATION AND EXPLOITATION, THE PEOPLE'S REPUBLIC IS NOT ONLY SELF-SUFFICIENT IN OIL BUT IS ABLE TO SPARE SOME FOR EXPORT. CRUDE OIL PRODUCTION IN 1975 IS BELIEVED TO HAVE EXCEEDED EIGHTY MILLION TONS, WHICH PLACES CHINA THIRTEENTH AMONG THE OIL-PRODUCING COUNTRIES OF THE WORLD. ALTHOUGH THE EXACT SIZE OF ITS OIL RESERVES IS NOT KNOWN, OBSERVERS BELIEVE THAT, POTENTIALLY, CHINA MAY HAVE AS MUCH OIL AS THE ENTIRE MIDDLE EAST REGION. THIS TAKES IN SIZABLE OFFSHORE FIELDS THAT HAVE YET TO BE OPENED UP.

THREE YEARS AGO CHINA BECAME AN OIL-EXPORTING COUNTRY, AND SINCE THEN HAS SOLD CRUDE OIL AND REFINED PRODUCTS TO SELECTED TRADING PARTNERS IN ASIA. THE HEAVIEST BUYER BY FAR IS JAPAN, WHICH LAST YEAR IMPORTED EIGHT MILLION TONS, OR THE EQUIVALENT OF SOME TWO HUNDRED THOUSAND BARRELS A DAY.

THE QUESTION IS WHETHER CHINA WILL INDEED MOVE INTO THE FRONT RANKS OF THE WORLD'S OIL EXPORTERS, AND HOW SOON.

NO ONE QUESTIONS CHINA'S ABILITY TO INCREASE OIL PRODUCTION BY AS MUCH AS TWENTY PERCENT PER YEAR IN THE FORESEEABLE FUTURE. THIS WOULD PLACE ANNUAL PRODUCTION AT OVER TWO HUNDRED MILLION TONS IN 1980. ON THE OTHER HAND, BECAUSE OF PEKING'S AMBITIOUS PROGRAM OF RAISING INDUSTRIAL AND AGRICULTURAL PRODUCTION SIMULTANEOUSLY, DOMESTIC DEMAND FOR PETROLEUM IS EXPECTED TO INCREASE AT A VERY RAPID RATE AND PERHAPS SERIOUSLY LIMIT THE AMOUNT AVAILABLE FOR EXPORT.

THERE ARE OTHER INTANGIBLES IN THE CHINESE OIL EQUATION, INCLUDING DEMAND. FOR ONE THING, THE HIGH WAX CONTENT OF CHINESE CRUDE OIL AND THE TENDENCY TO YIELD A DISPROPORTIONATLY HIGH PERCENTAGE OF HEAVY OIL, MAKES IT MARKETABLE ONLY IN HIGHLY INDUSTRIALIZED COUNTRIES, SUCH AS JAPAN. MOREOVER, THE CHINESE HAVE SET A RELATIVELY HIGH PRICE ON THEIR CRUDE OIL, ALTHOUGH WITHOUT NECESSARILY COMPLYING WITH PRICE LEVELS SET BY THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES. JAPAN'S OIL IMPORTS WERE REDUCED LAST YEAR, AND AS A RESULT, SOME JAPANESE EXPERTS PREDICT DRASTIC CUTS IN JAPAN'S OIL PURCHASES FROM CHINA IN 1976.

CERTAINLY THE WORLD CANNOT IGNORE CHINA'S GROWING OIL WEALTH. BUT THE PROBLEMS WHICH PEKING MAY FACE IN COMPETING WITH OTHER OIL EXPORTING COUNTRIES ARE VERY REAL AND SHOULD NOT BE UNDERESTIMATED.

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